



# ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

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Annex to Financial Information JUNE 2015  
Forecast updating and compliance report



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## COMPLIANCE ON THE FORECAST FOR 2015

This annex to the financial information provided by the Group offers a comparative view of the financial statements estimated for 2015 with the Interim Financial Statements at June 2015, by analysing the possible deviations regarding the same period in the previous year.

### 1. INCOME STATEMENT

Next are detailed the main deviations in the comparative analysis of the figures in 2015 over the figures in the previous year (the comparative information for the period ended at June 30 2014 may have suffered immaterial variations compared to the information published in August 2014, as a consequence of the adjustments in the consolidation after the exit of the Cake Group. Also, the compared figures are presented excluding the Cake Group, according to the accounting rules).

Likewise next is analysed the compliance of the business plan. ZINKIA, in spite of its insolvent position keeps on growing and working in the development of its business lines, increasing its revenues from its activities and minimising as much as possible the costs derived from such activities.

The increase in sales compared to the previous year and the control of costs have led the Company to obtaining an EBIDTA EUR 1,1MM

The detailed income statement is as follows:

<b>Zinkia</b>	<b>06/30/14</b>	<b>06/30/15</b>	<b>%</b>	<b>2015e</b>
(€)				
<b>Total Revenue</b>	<b>3,423,900</b>	<b>3,490,313</b>	<b>2%</b>	<b>11,536,299</b>
Sales	2,925,541	3,062,166	5%	10,533,259
Other revenue	498,358	428,147	-14%	1,003,039
Cost of goods sold	68,606	158,049	130%	1,052,921
<b>Gross Profit</b>	<b>3,355,294</b>	<b>3,332,264</b>	<b>-1%</b>	<b>10,483,378</b>
<i>% Gross Profit / Revenue</i>	<i>98%</i>	<i>95%</i>		<i>91%</i>
Cost of Employees	1,212,918	1,183,146	-2%	3,760,321
Other Operating Expenses	1,063,720	1,031,691	-3%	3,588,067
<b>EBITDA</b>	<b>1,078,657</b>	<b>1,117,427</b>	<b>4%</b>	<b>3,134,990</b>
<i>% EBITDA / Revenue</i>	<i>32%</i>	<i>32%</i>		<i>27%</i>
Amortizations and Depreciations	506,442	694,055	37%	1,439,923
<b>EBIT</b>	<b>572,215</b>	<b>423,372</b>	<b>-26%</b>	<b>1,695,067</b>
<i>% EBIT / Revenues</i>	<i>17%</i>	<i>12%</i>		<i>15%</i>
<b>Financial P/L</b>	<b>- 68,009</b>	<b>- 275,684</b>	<b>305%</b>	<b>-</b>
<b>Gains/losses on disposals of assets</b>	<b>- 482,079</b>	<b>-</b>	<b>-100%</b>	<b>-</b>
<b>EBT</b>	<b>22,127</b>	<b>147,688</b>	<b>567%</b>	<b>1,695,067</b>
<i>% EBT / Revenue</i>	<i>1%</i>	<i>4%</i>		<i>15%</i>
Taxation	- 380,145	- 62,985	-83%	508,520
<b>EAT</b>	<b>- 358,018</b>	<b>84,703</b>	<b>124%</b>	<b>1,186,547</b>
Minority interest	- 335,383	-	-100%	-
<b>Profit attributable to Parent</b>	<b>- 693,401</b>	<b>84,703</b>	<b>112%</b>	<b>1,186,547</b>

## 1.1. REVENUE

In the following tables the turnover is specified by business line and compared to 2014 and to the projections for 2015:

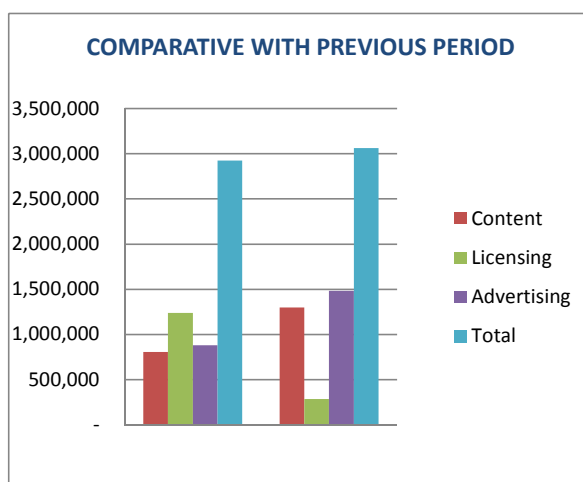
	06/30/2014	06/30/2015	% var	2015e	% achieved
Content	804,708	1,297,733	61%	2,641,659	49%
Licensing	1,239,222	281,892	-77%	4,813,091	6%
Advertising	881,611	1,482,542	68%	3,078,509	48%
<b>Total</b>	<b>2,925,541</b>	<b>3,062,166</b>	<b>4.67%</b>	<b>10,533,259</b>	<b>29%</b>

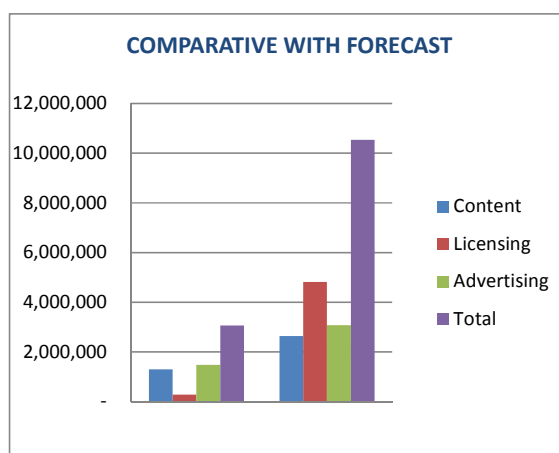
€	6/30/2015
Content	42%
Licensing	9%
Advertising	48%
<b>Total</b>	<b>3,062,166</b>

Next tables show the breakdown of revenue by geographic area:

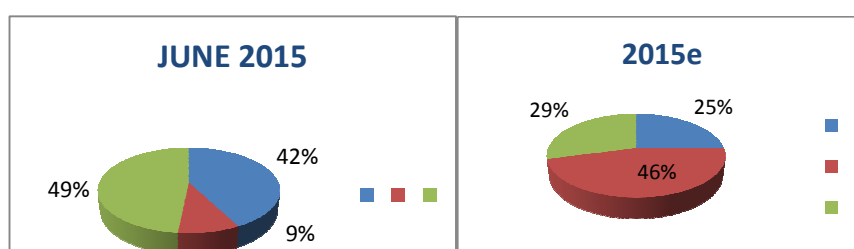
	6/30/2015	6/30/2014
Domestic	17%	24%
Abroad	83%	76%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Next tables contain different graphics showing the evolution in the revenue of the Group:





Next tables contain graphics showing the breakdown of revenue by business line:



ZINKIA'S business keeps growing in spite of being subject to an insolvency procedure since last April 7<sup>th</sup> 2014, as show the figures of this period compared to those of the previous period.

During the first semester in 2015, the Group sales have increased 5% over the same period last year. This increase in the sales is the result of the business development and growth.

As to the compliance of the projections it is important to recall that the Group does yearly estimations. And likewise, it should be mentioned that the turnover is not really influenced by the seasonality of transactions, although historically some 60% of the total yearly sales take place in the second semester. However the results in the licensing area have not met the expectations.

As to the distribution by business lines, there is a notable growth in two of the three large business areas: Contents and Publicity.

Regarding the area of contents, this business line has increased 61% compared to the same period last year. This increase results from the commercial management in this income generation that includes digital and interactive content sales in different platforms and the delivery of content relating the project of developing educational apps. This business line amounts to 49% of the total sales projected for 2015.

Sales corresponding to Licensing & Merchandising have decreased 77% compared to the same period last year. In 2014 a certain number of agreements with important minimum guarantees were signed, and according to the accounting rules those sales were totally recorded at the time of signing (2014). Today those agreements are being executed and will generate new sales of royalties once the minimum guarantees in the agreements are exceeded. Likewise, it should be mentioned that a business plan was established with the aim of exiting the insolvency process in the first semester of 2015 or short after. Since this did not happen at the estimated time, the Group sales were affected to the extent that many a negotiation was delayed until the positive resolution on the insolvency process. As to the exploitation of trademarks through merchandising licensing, the end consumer is not the direct client, contrary to what happens in other business such as with content download or the visualisation of associated publicity. This is the reason why this business line is the most affected by the financial situation of ZINKIA, since the different agents in the commercial negotiation (partners, great distribution chains, toy industry, etc.) are part of the chain of sales before the product reaches the end consumer and that chain requires an investment in publicity, marketing and so on that it is not possible to obtain now given the insolvency situation of ZINKIA, and as a consequence sales of this type of products are delayed. The estimations of this area counted on the recruitment of different international commercial profiles to their team in early 2015. Due to the insolvency process it was not possible recruiting any of those positions that are necessary to launch the business plan, and therefore this has greatly affected meeting the sales expectations for the year.

This business line amounts to 6% of the total sales projected for 2015.

Last, sales derived from the category Publicity have increased exponentially amounting an increase of 68% over the figures reached the previous year for the same period, thanks to the good results of the exploitation of publicity in online platforms.

This business line amounts to 48% of the total sales projected for 2015.

In other revenues from the exploitation we find the activated amount of the works made by the Group itself to develop and produce its interactive audiovisual projects.

## 1.2. EXPENDITURES

ZINKIA is still controlling costs. Regarding the estimates for 2015, the costs have been in line with the estimates.

The item “staff expenses” has been kept stable with regards to the same period in the previous year. The increase in the staff provided for in the business plan have been delayed because of the insolvency situation.

Zinkia	06/30/14	06/30/15	%	2015e
Cost of Employees	1,212,918	1,183,146	-2%	3,760,321

Likewise, the item “Other exploitation expenses” has been kept stable with regards to the same period the previous year. Under this heading we find the costs of the assessors, consultants and, mainly, the trade commissions.

€	6/30/2014	6/30/2015	% var	2015e
Trade commissions	117,474	178,764	52%	835,550
Other general expenses	946,246	852,927	-10%	2,752,517
<b>TOTAL</b>	<b>1,063,720</b>	<b>1,031,691</b>	<b>-3%</b>	<b>3,588,067</b>

Last, under the item “supplies” the amounts have increased compared to the same period last year as a consequence of the work hired from other companies such as recordings, audio, etc. and the purchase of samples of merchandising products within the frame of ZINKIA's catalogue project.

€	6/30/2014	6/30/2015	% var	2015e
Independent professional services	68,606	158,049	130%	203,900
Purchase of goods	-	-		849,021
<b>TOTAL</b>	<b>68,606</b>	<b>158,049</b>	<b>130%</b>	<b>1,052,921</b>

## 2. BALANCE

### 2.1. ASSETS

Zinkia	12/31/2014	6/30/2015	2015e
(€)			
<b>Intangible Assets</b>	<b>8,404,571</b>	<b>8,147,424</b>	<b>7,996,485</b>
<b>Goodwill</b>			-
<b>Tangible Assets</b>	<b>37,135</b>	<b>38,612</b>	<b>68,336</b>
<b>Financial Assets</b>	<b>300</b>	<b>300</b>	<b>300</b>
<b>Deferred Taxation Assets</b>	<b>6,165,463</b>	<b>6,127,764</b>	<b>5,656,943</b>
<b>Debtors and receivables</b>	<b>1,565,282</b>	<b>283,866</b>	<b>1,440,565</b>
<b>Non Current Assets</b>	<b>16,172,750</b>	<b>14,597,966</b>	<b>15,162,629</b>
<b>Debtors and receivables</b>	<b>3,336,883</b>	<b>3,591,469</b>	<b>3,462,989</b>
<b>Financial Assets</b>	<b>1,115,996</b>	<b>1,120,988</b>	<b>1,115,996</b>
<b>Cash</b>	<b>1,840,980</b>	<b>2,875,614</b>	<b>1,962,281</b>
<b>Period Adjustements</b>	<b>3,393</b>	<b>5,823</b>	<b>3,393</b>
<b>Current Assets</b>	<b>6,297,252</b>	<b>7,593,894</b>	<b>6,544,659</b>
<b>Total Assets</b>	<b>22,470,001</b>	<b>22,191,861</b>	<b>21,707,289</b>

The non-current customers of the Consolidated Balance Asset represent the value of the 12-month maturity balances from the date of preparation of the Interim Consolidated Financial Statements. Such amount has decreased according to the different maturity dates of the amounts under this item, some of them even become short-term.

The Group's cash-flow has increased in 56% with regards to December 2014. This notable increase results from the increase in the sales of content and publicity and from the control of costs as above-mentioned, which leads to savings in the cash-flow which strengthen ZINKIA's financial position.

The other non-current assets and current assets are not significantly modified during the period.

## 2.2. LIABILITIES

Zinkia	12/31/2014	6/30/2015	2015e
Issued Capital	2,445,677	2,445,677	2,445,677
Share premium	9,570,913	9,570,913	9,570,913
Own shares held	- 403,841	- 403,841	- 403,841
Reserves	964,625	964,622	964,622
Retained Earnings	- 3,504,172	- 7,541,452	- 7,541,452
Profits and losses	- 4,037,280	84,703	1,186,547
Translation differences	-	-	-
Profit attributable to minority interest	-	-	-
Minority interest	-	-	-
<b>Shareholders Equity</b>	<b>5,035,919</b>	<b>5,120,621</b>	<b>6,222,466</b>
Deferred income	138,573	138,573	138,573
Long Term Debt	4,027,867	3,838,738	9,352,829
Deferred taxation liabilities	53,660	53,660	53,660
Long Term provisions	1,262,675	-	1,262,675
<b>Long Term Liabilities</b>	<b>5,482,775</b>	<b>4,030,972</b>	<b>10,807,737</b>
Short Term Debt	7,946,269	8,440,055	2,526,325
Creditors	2,617,181	2,544,622	762,902
Deferred income, short term	1,387,859	2,055,590	1,387,859
<b>Current Liabilities</b>	<b>11,951,309</b>	<b>13,040,268</b>	<b>4,677,086</b>
<b>Total Shareholders Equity and Liabilities</b>	<b>22,470,001</b>	<b>22,191,861</b>	<b>21,707,289</b>

Variations in the net equity are due to the results obtained.

The rest of the items remain almost unchanged during this first semester. The long-terms accruals items have been reclassified as current accruals. This heading is related to the project of producing educational apps. ZINKIA invoices the payable amounts for each application, and this item counts as counterpart. These amounts, according to the accounting rules, are cancelled against the balance item as the content is delivered.

## FORCAST UPDATING

ZINKIA ENTERTAINMENT, S.A., (hereinafter also "ZINKIA", "Parent Company" or "the company"), considering the delays suffered up to the present date in the insolvency procedure, and after analysing the economic and financial impact of such delays, has revised its projections for 2015 published last April 2015.

ZINKIA's Group (hereinafter, "Group") reviewed Business Plan for 2015 is detailed as follows.

Considering the changes in the sector during the last years, mainly due to the global crisis, and which lead to the delays in the closing of trade and production deals, ZINKIA thought appropriate revising its 2015 business plan last April 30<sup>th</sup> 2015, by adjusting the timing of new productions and the commercial exploitation in new markets.

In the previous reviews of ZINKIA's Business Plan it was deemed necessary to temporarily suspend some of the expected productions and to the adapt the production schedule to the current market situation and to the funding sources available.

Consequently, both the strategic and economic goals set by the Group at the time of its incorporation to the Market, have been deferred or had to be changed in time.

However, the Group has always believed in value creation and has therefore sacrificed, whenever necessary, its economic goals in the short term in order to secure a greater future value. During these years ZINKIA has succeeded, among others, in the following self-set goals:

- Recovering the international distribution of POCOYO™, which grants the Group operating and managing freedom which ensures a future growth of incomes in different territories over the poor outcome achieved to date. This shall afford a direct relation with all agents and licensees in every country. Since the actual reversion of the commercial management (2011) facts show revenue coming from different territories that is higher to that of the previous.
- Entering into the United States market from the three most important television platforms. With the support of a commercial agent in the territory and the good audience figures reached both in televisions, where the POCOYO™ is present, and in digital broadcast platforms, lead to the expectation of a very positive outcome in this market in the coming years.
- Entering into the Italian, British, Turkish, Russian and South East Asia, by means of the signing of new trade agency agreements that will represent our interests in those markets.
- Full cover of the Latin American market with a new structure of commercial agents.
- Reactivation of the Chinese market by means of signing one of the most important categories of licensing (toys).
- Launching of a new format of commercialisation of the merchandising business line by means of a creation of its own catalogue of POCOYO™ products to be commercially exploited at international level.

The general trend in the sector was another important factor that has resulted in the lowering of the estimates over those published in previous versions of the Business Plan.



The present revision of the Business Plan for 2015 has taken into consideration the delays suffered in the insolvency process, and therefore its estimates reflect the impact of such delays as detailed below. Though ZINKIA is still growing, a business plan was established with the aim of exiting the insolvency procedure in the first semester of 2015 or short after. But since such situation remains unchanged, Zinkia's sales in the area of licensing, as mentioned above, have been affected since many a negotiation has been delayed until the positive resolution of the insolvency procedure. Consequently ZINKIA's managers have analysed the impact of such situation in the present business plan, and have modified it taking into account that it is still possible that some negotiations are delayed and finally end once 2015 is over.

As a consequence of the above, and in compliance with Rule 9/2010 from MAB on information to be provided by entities incorporated in small cap trading on the Mercado Alternativo Bursátil, the present document updates the business forecasts presented in section 1.14.1. of the Information Memorandum of Incorporation ZINKIA ENTERTAINMENT SA in July 2009, reviewed at April 2010, April 2011, April 2012, April 2013, April 2014 and April 2014.

Thus section 1.14.1. of said document is modified as follows.

**1.14 In the event that, pursuant to the regulations of the Mercado Alternativo Bursátil or the Issuer's will, quantification of forecasts or figures estimations on future income and expenses (incomes or sales, costs, general expenses, financial expenses, amortisations and profit before tax).**

The adoption of this type of forecasts and estimations implies the Company's commitment to inform the market, via the MAB, as soon as revenue and costs are likely to differ significantly from expected.

Pursuant to Rule 2/2014 from MAB, ZINKIA's Board of Directors approved on 26<sup>th</sup> August 2015, with no votes against, a new consolidated Business Plan with the changes in forecasts and estimations for the coming year shown as follows:

1.14.1 2015 Projected Data

This heading shows the financial statements projected for the Group in 2015.

**1.14.1.1 Projected Income 2015**

<i>Euro</i>	<b>2015e</b>
<b>TOTAL REVENUE</b>	<b>9,423,873</b>
<b>SALES</b>	<b>8,567,579</b>
<b>Pocoyó</b>	<b>8,567,579</b>
Content	2,745,383
Licensing	2,743,687
Advertising	3,078,509
<b>OTHER OPERATIVE REVENUE</b>	<b>856,294</b>

The ZINKIA Group aims at developing and exploiting entertaining brands, through the creation, production, distributions and commercialisation of audiovisual and interactive animated content.

The 3 sources of cash generation of the ZINKIA Group are as follows:

- Production and exploitation of audiovisual and interactive content: the Group mainly produces and distributes series, movies, video games and applications, distributed and exploited via multi-platform and type of device.
- Exploitation of brands: by means of signing license agreements in exchange for a payment based on royalties.
- Advertising business: ZINKIA Group proceeds to selling the advertising space available both in ZINKIA's digital platforms as well as in third parties' platforms distributing ZINKIA's content.

## **STRATEGIC POSITIONING**

The main lines in the strategic positioning of the ZINKIA Group are:

- Producing audiovisual and interactive family content, focused on children aged up to 14.
- Underlining the relevance of entertainment combined with educative elements and with universal values.
- Developing international content.
- Integrating audiovisual and interactive content together with developing brands all of them conceived as part of a single entrepreneurial and commercial planning.
- Producing own content, prioritising within its own catalogue, value and quality over quantity.
- Registration trademarks and designs at national and international level, within the operating classes, and intellectual property rights in the different administrative registries in those countries where business is focused.

## **MAIN ACTIVITIES**

### **Production and exploitation of audiovisual and interactive content:**

The department of audiovisual production in the ZINKIA Group is focused on the development of children animated content. The type of formats exploited by the ZINKIA Group within the line of production of children animated content range from television series to long movies both for cinema and television.

The implementation of this line of business in the production of children animated content has led the ZINKIA Group to count on 4 teams: development, preproduction, production and postproduction. There is always a basic team covering all these needs, and, when a new production starts, teams grow in order to get adapted to each project.

The stages that all audiovisual projects have to go through start with a development stage wherein the object of the project is identified, and the visual and story basic lines of the project are outlined. Later on, during the preproduction stage, work is focused on the plot and script as well as on the development all the elements in detail that are part of the content and that will be used in the stage of production, which is the longest, depending on the type of project, and which includes the biggest team of workforce. Finally, the postproduction stage results in the final product by gathering together and synchronising all the pieces of the work: image, sound, effects, etc.

The Group uses the most advanced technology to produce its audiovisual projects, which affords obtaining a quality that has positioned ZINKIA as a worldwide reference in the animation sector and granted the most important prizes. Also, the ZINKIA is developing its own tools to help its artists and creatives reaching the best results possible.

The business models based on audiovisual productions are mainly:

- *Distribution* through television chains: both pay channels (pay television) as open television channels (free television), by means of licenses agreements to broadcast the content. There are different broadcast windows, ranging from pay television license firstly, to the open television window, later on.
- *Home Video*: by means of distributors and licenses of content distribution in the most usual formats (DVD, Blue Ray, etc.) in exchange of a royalty per unit sold.
- *Pay per view (PPV)* and *Video on demand (VOD)*: the emergence of new formats and supports for the distribution of audiovisual content can be exploited through a new window by means of license agreements with platform distributing content.

As for the distributions and commercialisation of audiovisual content, the ZINKIA counts on a commercial team of its own as well as on the collaboration of agents specialised in the sales of this type of products, agents who perceive a fee representing a percentage on the amount of the closed operations.

With the aim of granting productions a global presence or 360 degrees, and in order to make available to the public contents where they are actually consumed, the ZINKIA Group is also creating, developing, producing and distributing interactive products for consoles, mobile telephones (smartphones), tablets, PCs, Smart TVs or websites, mainly interactive applications (interactive books, games, educational content, etc.) as well as video games and online communities.

Currently, the Group is developing the original design of such products and implements their production via collaboration agreements with companies developers of this type of content, sharing with them the tasks of production.

The distribution and monetization models of this type of products are as follows:

- *Free*: no income is perceived in exchange of the downloading or acquisition.
- *Application acquisition*: one single payment is perceived in exchange of the download or acquisition of the application.
- *Advertising*: the application is downloaded or acquired for free but it contains advertisements.
- *Freemium* or acquisition of contents and additional functionalities from inside the application, which is downloaded for free.

The Group uses all the distributions means for this type of content, all applications are distributed under all these modalities

The impact of ZINKIA's sales projections for 2015 in the commercial exploitation of this business line is not very relevant. Sales increase 4% over the estimated figure in April 2015, as a result of the sales negotiated at the time of preparation of this document with regards to the television distribution agreements at international lever, all within the framework of the strategy of brand repositioning.

## Exploitation of brands

The impact projected in the commercial exploitation of ZINKIA's sales for 2015 is focused on the exploitation of trademarks through merchandising licensing, reducing the estimated figure for 2015 43%. ZINKIA established a business plan was established with the aim of exiting the insolvency process. Since this did not happen at the estimated time, the sales were affected to the extent that many a negotiation was delayed until the positive resolution on the insolvency process. Consequently ZINKIA's managers have analysed the impact of such situation in the present business plan, and have modified it taking into account that it is still possible that some negotiations are delayed and finally end once 2015 is over. As to the exploitation of trademarks through merchandising licensing, the end consumer is not the direct client, contrary to what happens in other business such as with content download or the visualisation of associated publicity. This is the reason why this business line is the most affected by the financial situation of ZINKIA, since the different agents in the commercial negotiation (partners, great distribution chains, toy industry, etc.) are part of the chain of sales before the product reaches the end consumer and that chain requires an investment in publicity, marketing and so on that it is not possible to obtain now given the insolvency situation of ZINKIA, and as a consequence sales of this type of products are delayed. The estimations of this area counted on the recruitment of different international commercial profiles to their team in early 2015. Due to the insolvency process it was not possible recruiting any of those positions that are necessary to launch the business plan, and therefore this has greatly affected meeting the sales expectations for the year.

Communication platforms through which audiovisual content is distributed, and prominently "open" television, are the vehicle through which the visibility of productions is generated, resulting in the possibility to exploit them commercially as trademarks. Therefore, brand development is the fundamental aim of the production of animation content, since it is through the commercial exploitation of the brand that Group obtains the vast majority of its income.

ZINKIA grants trademark licenses all over the world, relating to different categories of products among which we can name: toys; books and publishing; clothes; accessories; electronic devices; food; care and hygienic products, etc.

Licenses are granted for a given country or geographical area, for a limited period of time and for a particular category of product. All those terms are established and signed under license agreements which are completed to that aim. The standard type of trademark license has an average duration of 1 to 3 years, and renovation entails the payment of new minimum royalty guarantees.

With the aim of managing the worldwide exploitation of its trademarks, the Group relies on commercial agents who help, in some territories, managing those licenses given their greater knowledge of the local market and stopping the Group from becoming a larger structure. Those agents are paid a fee over the income obtained by the ZINKIA in their territories.

The regular model of income is the payment by licensees of royalties over the net sales, ranging according to the type of product from 4% to 20%. Licensees are granted the exploitation of a trademark regarding a particular type of product, in a given country or geographical area and for a specific period of time. In almost all cases there is a forwarded payment offset against the future revenue, called "minimum royalty guarantee". This minimum guarantee is set as a percentage over the income detailed in the business plan presented by the licensee and annexed to the license agreement. It usually ranges from 20% to 40%. Licensee shall make the effective payment at once or in instalments. The minimum guarantee serves as effective payment forwarded and as guarantee of the licensee's commitment.

In April 2011, ZINKIA reached an agreement with ITV Global Entertainment Ltd., which ended their economic and commercial relation to the date, and so ZINKIA became the exclusive distributor of all rights and licenses regarding POCOYO™, which is an important milestone for the Group in the commercial exploitation of the POCOYO™. From that moment on, the Group can implement worldwide strategies that will make it possible to meet the goals set in the business plans. It also results in the geographical diversification of the income, which affords facing the coming years with a less dependence from some geographical areas.

Zinkia has started a new format of commercialisation of this business line by creating a catalogue of its own on POCOYO™ products to be commercially exploited at international level. This way, traditional sales are combined with licensing clients to manufacture products while Zinkia receives in exchange a percentage on the direct sales of the POCOYO™ products of Zinkia.

### **Advertising business**

ZINKIA, considering all the information available at the time of preparing this document, thinks that the business line of advertising exploitation will not be affected by the delays in the insolvency procedure, therefore the estimated sales are those projected in April 2015. The end consumers visualise ZINKIA's content through platforms such as YouTube, which lead to the sale of advertisements associated to that content. This model of exploitation is still growing, audience is increasing and therefore no modification is needed in these sales estimates.

The emergence of new distribution supports for audiovisual and digital content, new formulas to generate income, which did not exist before, have emerged. The online advertising business is producing thousands of millions all over the world and has been growing very high for the last years, so such trend is expected to be maintained in the coming years.

The Group produces income via the advertising business in its own platform in the following ways:

- Own platforms: in its own websites, on-line communities, etc., some advertising space is made available directly, through media agencies and advertisers, to sell ads.
- Third parties platforms distributing audiovisual content from the ZINKIA: in those platforms where content can be visualised, income deriving from advertisements associated to those properties are shared between the platform and the Group.
- Apps for mobile devices: in those cases when advertisement is the option to distribute interactive applications, the income is generated by the different advertising actions inside the application.

The income generated via this means of exploitation is faster than the traditional means of income. This source of income represented in 2014 42% over the total consolidated income of the Group.

### **Other income**

- Activations (Projects in progress). Activations correspond to staff expenses and other direct operating expenses incurred by ZINKIA in order to develop and produce products and content. This item is related to the development of educational apps.

### 1.14.1.2 Projected Staff Expenses.

The projected staff expenses establish a difference between the Group's fixed team and the production team, which varies depending on the development of some new product.

The staff expenses have been adjusted taking into consideration that at the time of preparation of the present document, most of the recruits projected for 2015 have not taken place and, should they finally take place, it will be at the end of the year.

The team estimated for 2015 is as follows:

<b>Average number of employees</b>	<b>2015e</b>
<b>Regular Staff</b>	41
<b>Production Team</b>	22
<b>TOTAL</b>	<b>62</b>

<b>COST OF EMPLOYEES</b>	<b>2015e</b>
<b>Regular Staff</b>	2,109,177
<b>Production Team</b>	899,080
<b>TOTAL COST OF EMPLOYEES</b>	<b>3,008,257</b>

- The staff cost related to the estimated production teams for 2015 is related to the project of educational apps development for the United States.
- Given the current situation, there is a basic operating team reduced as much as possible both in number of people as in cost which increased in 2015 according to the projection and with precaution in order to cover for a possible increase in the staff costs (social securities, etc.) As to the production team, it is estimated at its minimum necessary to comply with the production of the educational apps above-mentioned.
- Notwithstanding their exclusion of the period considered, projects in progress are not abandoned, yet their starting date is deferred to years to come when the economic and financial situation shall be suitable.

### 1.14.1.3 Projected Other Expenses

Other expenses are projected in detail as follows. Commercial fees and the purchase of goods vary depending on sales.

The estimates in this item have been projected considering the control in costs and the reduction in variable costs of sales, since sales are inferior to the estimates, their associated costs are also inferior.

<b>Cost of goods sold</b>	<b>2015e</b>
Independent professional services	316,098
Purchases of goods	619,292
<b>TOTAL</b>	<b>935,390</b>
Trade commissions	626,663
Other general expenses	2,003,526
<b>TOTAL</b>	<b>2,630,188</b>

#### 1.14.1.4 Projected Amortisation

Depreciation and amortisation of fixed assets have been projected according to the current depreciation policy of the Group, thereby the current depreciation rates used depending on the item of property in question are maintained.

<b>Amortization</b>	<b>2015e</b>
Research and development	1,410,104
Intellectual Property	18,292
<b>Total</b>	<b>1,439,923</b>

#### 1.14.1.5 Projected Income Statements

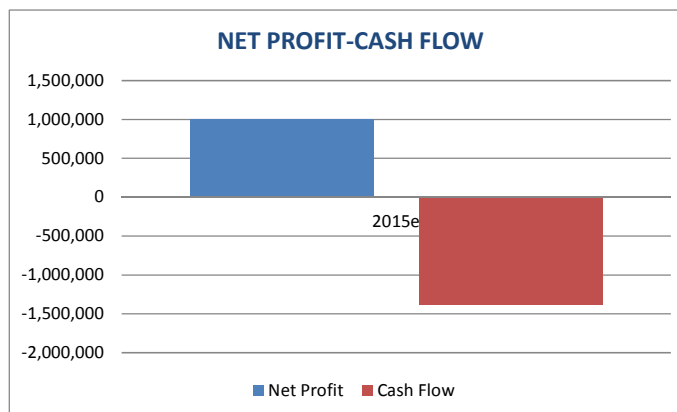
<b>Zinkia</b>	<b>2015e</b>
(€)	
<b>Total Revenue</b>	<b>9,423,873</b>
Sales	8,567,579
Other Operating Income	856,294
Cost of goods sold	935,390
<b>Gross Profit</b>	<b>8,488,484</b>
<i>% Gross Profit / Revenue</i>	<i>90.07%</i>
Cost of Employees	3,008,257
Other Operating Expenses	2,630,188
<b>EBITDA</b>	<b>2,850,039</b>
<i>% EBITDA / Revenue</i>	<i>30.24%</i>
Amortizations and Depreciations	1,439,923
<b>EBIT</b>	<b>1,410,116</b>
<i>% EBIT / Revenues</i>	<i>14.96%</i>
<b>Financial P/L</b>	<b>-</b>
<b>Gains/losses on disposals of assets</b>	<b>26,231</b>
<b>EBT</b>	<b>1,436,347</b>
<i>% EBT / Revenue</i>	<i>15.24%</i>
Taxation	430,904
<b>EAT</b>	<b>1,005,443</b>

The net turnover, reflecting the Group's commercial activity increases in the projected figures compared to historical period, mainly due to increased exploitation of the brand POCOYO™ in other countries and to the increased weight in the turnover of the income deriving from the online presence and digital rights management of the brands generated.

The income statement shows positive operating margins, which is explained by the turnover and by the lower costs associated to new developments. Also, an important factor is that the marketing strategy for contents and products developed by the Group is focused on the direct negotiation of trademarks with licensees who generate most of the revenue (sales of books, DVDs and toys) and negotiating through agents, for the other licensees. Such business model is based on the collection of royalties which requires a reduced structure and marginal incremental costs once the investment is made. This allows ZINKIA to have a very light staff sales structure and to increase its margins in exchange for the drop in the volume of business.

#### 1.14.1.6 Cash-flow forecasts

Both the activation costs as the offset in the transfer of investments to income through depreciation imply that the income of ZINKIA shows important differences to the actual cash flow generation. In the same way, the net cash-flow for the year is affected by the payments scheduled in the APAC within the insolvency procedure.





Cash Flow (€)	2015e
<b>EBIT</b>	<b>1,410,116</b>
Taxation	430,904
Tax credit applied	430,904
Amortizations	1,439,923
	-
<b>Operations Cash-Flow</b>	<b>2,850,039</b>
Intangible Assets	886,294
Tangible Assets	60,000
<b>Capex Investment</b>	<b>946,294</b>
Increase / decrease in accounts receivable	822,730
Increase / decrease in accounts payable	- 528,031
<b>Changes in working capital</b>	<b>1,350,761</b>
	-
<b>CF debt service</b>	<b>552,984</b>
Debenture payment	368,927
Bank borrowing payment	-
Loan payment	1,571,933
Financial P&L	-
<b>Financing cash-flow</b>	<b>- 1,940,860</b>
<b>FCF</b>	<b>- 1,387,876</b>
	<b>1,793,688</b>
<b>Cash and cash equivalents - end of year</b>	<b>405,812</b>

The cash-flow projected by ZINKIA for the coming years depends mainly on the estimates of the three variables:

- ✓ Gross operating profit expected by ZINKIA (See Income Statement)
- ✓ Investments in the development of new products and amortisation. This Business Plan includes the development of educational apps. The development of other productions is postponed to later years when the economic and financial situation is appropriate, and so they are beyond the forecast period.
- ✓ Investment needs in working capital: Investment in working capital of the Group depends on the evolution of two items: debtors and trade creditors. The projection made by ZINKIA discussed as follows:

- **Receivables.** This item is conditioned by ZINKIAS accounting policy, which, pursuant to the relevant regulation, recognises as income the minimum royalty guarantee paid in exchange of the license agreements at the time of the signing of the agreement.
- **Trade receivables.** The evolution of this item is conditioned by the stages in the production of content, since they would increase the exploitation expenses of the Company, as well as a variable part, the trade commissions of agents which depend on sales. The evolution of this item would be additionally conditioned to the insolvency situation of ZINKIA and the payments schedule finally agreed in the procedure. These estimates are taking into consideration the payments plan proposed within the frame of the Advanced Proposal of Arrangement with the Creditors.

<b>Changes in working capital</b>	<b>2015e</b>
Debtors and receivables	822,730
Creditors and payables	- 528,031
<b>Total</b>	<b>1,350,761</b>

### 1.14.1.7 Consolidated Balance Sheet

The estimated projections for the balance, take into consideration both the business evolution and the payments plan proposed by ZINKIA during the insolvency procedure in the Advanced Proposal of Arrangement with Creditors.

<b>Balance Sheet (euros)</b>	<b>2015e</b>
(€)	
<b>Intangible Assets</b>	<b>7,874,620</b>
<b>Tangible Assets</b>	<b>83,694</b>
<b>Financial Assets</b>	<b>3,306</b>
<b>Deferred Taxation Assets</b>	<b>5,757,798</b>
<b>Debtors and receivables</b>	<b>283,866</b>
<b>Non Current Assets</b>	<b>14,003,285</b>
<b>Debtors and receivables</b>	<b>4,846,706</b>
<b>Financial Assets</b>	<b>1,134,268</b>
<b>Cash</b>	<b>405,812</b>
<b>Period Adjustements</b>	<b>5,823</b>
<b>Current Assets</b>	<b>6,392,609</b>
<b>Total Assets</b>	<b>20,395,893</b>
<b>Issued Capital</b>	<b>2,445,677</b>
<b>Share premium</b>	<b>9,570,913</b>
<b>Own shares held</b>	<b>- 403,841</b>
<b>Reserves</b>	<b>914,473</b>
<b>Retained Earnings</b>	<b>- 7,535,310</b>
<b>Profits and losses</b>	<b>1,005,443</b>
<b>Shareholders Equity</b>	<b>5,997,355</b>
<b>Deferred income</b>	<b>138,573</b>
<b>Long Term Debt</b>	<b>9,432,822</b>
<b>Deferred taxation liabilities</b>	<b>53,660</b>
<b>Long Term Liabilities</b>	<b>9,625,054</b>
<b>Short Term Debt</b>	<b>1,312,226</b>
<b>Creditors</b>	<b>1,405,667</b>
<b>Deferred income</b>	<b>2,055,590</b>
<b>Current Liabilities</b>	<b>4,773,484</b>
<b>Total Shareholders Equity and Liabilities</b>	<b>20,395,893</b>

**Disclaimer**

Under no circumstances this document is to be understood as an offer to purchase, sell, subscribe for or trade ZINKIA's shares. Any investment decision thereon shall be taken according to the sole discretion of the investor and/or consultants that the investor deems appropriate.

The information contained herein relates primarily to historical data but it can also contain statements or future expectations that, as such, are subject to risks and uncertainties, known and unknown, that could cause the business development of the group to be different from what is hereby stated or inferred, and therefore conditioning their realisation.

For a better understanding of the risks that could affect the business, the statements of future and the financial situation and equity, ZINKIA recommends consulting the Information Memorandum of Incorporation to the MAB and the subsequent periodical information sent to the Market.

**Regards,**

José María Castillejo Oriol  
ZINKIA Entertainment, S.A.